

# IHCDA HOME Homebuyer Program

## Selling the Unit – Part I: Choosing the buyer and evaluating the lender

### Session 4

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# IHCDA's Mission and Vision

## Our Mission

To provide housing opportunities, promote self-sufficiency, and strengthen communities.

## Our Vision

An Indiana with a sustainable quality of life for all Hoosiers in the community of their choice.



# CONGRATS!

You've made it. You are ready to sell your HOME Homebuyer Unit.

Now what?

# Agenda

- Pre-Closing Timeline
- Eligible Beneficiaries
- Homebuyer Counseling
- Setting the Purchase Price
- Evaluation of Buyer Expenses, Cash Contribution and Cash Savings
- Lending Standards
- Filling out the Buyer Closing Analysis

# Pre-Closing Timeline

# IHCDA Closing Manual

- This is a guide to assist with the various requirements and regulations pertaining to the actual selling of a HOME-assisted Homebuyer unit.
- Please note that the Manual does not cover Project Compliance.

# End of Construction

- The final inspection of the unit must be completed prior to moving forward on selling the unit. The Final Inspection must be scheduled within 30 days of construction completion and the issuance of the certificate of occupancy.
- Final forms may include:
  - Lead Form
  - Certified HERS rating Form
  - Final Inspection Form
- Universal Design Features, Green Building Techniques and Design Features as noted in your application must be met.
- Dave Pugh will issue the inspection clearance letter. Reminder – this begins the 9-month requirement to have a purchase agreement with an eligible buyer.

# Pre-Closing Documentation

- Pre-closing documentation must be submitted to IHEDA 3-4 weeks prior to closing.
- Closing Manual includes a list of those documents. Those may include:
  - Part 5 income verification
  - Certificate of Housing Counseling
  - Final Appraisal
  - Closing Disclosure
  - Final Closing Proforma (per unit)
  - Mortgage
  - Buyer Expenses
  - Buyer Bank Statements
  - Written explanation of assets
  - Development Sources
  - Other Buyer Assistance



# Pre-Closing Documentation

- All pre-closing documents must be submitted on a per-unit basis
- IHCD A must approve the closing based on these documents and cannot guarantee approval if documents are submitted late.
- If you are submitting more than one unit at a time, please reach out to IHCD A to set up a OneDrive folder.

# Eligible Beneficiaries

# Eligible Beneficiaries

- All homebuyers must be at or below 80% of the HUD Area Median Income at time of purchase.
- IHCD provides this information on a per-county basis through the release of RED notices. 2024's income limits are posted in [RED Notice 24-25](#).
- IHCD follows the Part 5 Income Verification Process. The requirements can be found under [Chapter 14 – Income Verification of the CDBG-HOME-HTF Program Manual](#).
- Training next week on Income Verification!

# Verifying Income

- IHCD's Compliance Division will verify that the household meets the HUD income requirements prior to closing.
- New process is to ensure the household is at or below 80% AMI prior to closing – otherwise, the unit is considered a failed HOME unit and the developer must repay all funds to IHCD.
- IHCD will require income documents to be submitted 4 weeks prior to any closing.

# Housing Counseling

# Housing Counseling Rule

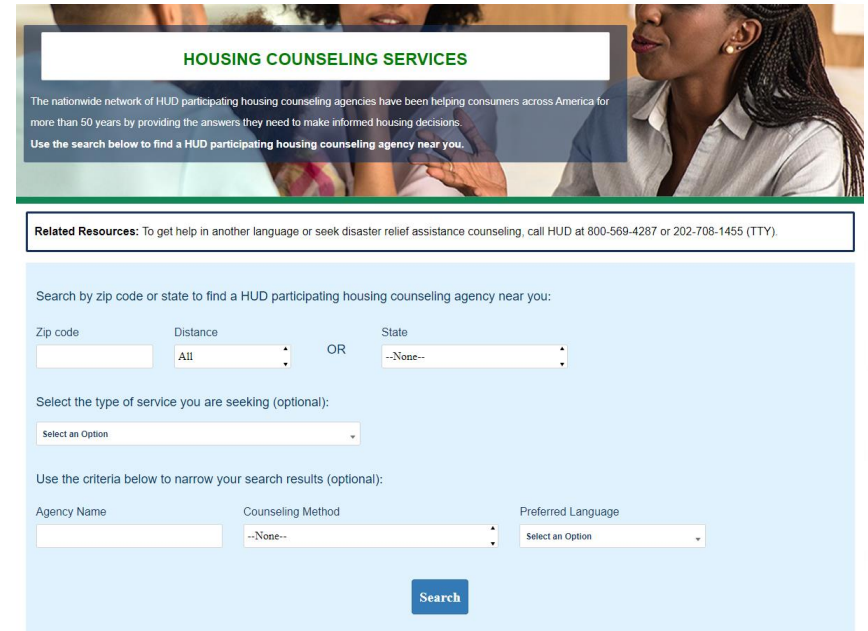
- All homebuyers **MUST** receive Housing Counseling.
  - HUD Housing Counseling Rule effective 2021
- All adult household members who will hold title and be a party to the senior loan are required to complete homebuyer housing counseling.
- All homebuyers assisted under HOME must receive housing counseling that is performed by:
  - Certified Housing Counselor who has passed the HUD certification exam AND
  - Who is employed by a HUD-approved housing counseling agency.

# HUD Housing Counseling Agencies

- Private or public non-profit organizations who have been approved by HUD to provide housing counseling
  - Experience
  - Community Base
  - Resources to implement counseling plan
- Agencies will have HUD-Certified Housing Counselors on staff
- These counselors have passed an intensive exam to be certified
  - Counselors are experts on pre-and post-purchase, fair housing, financial literacy.
  - Roughly 1300 certified counselors nationwide!

# HUD HOUSING COUNSELORS

- HUD has a tool to find HUD participating housing counseling agencies! This can be accessed at:
- [https://hudgov-answers.force.com/housingcounseling/s/?language=en\\_US](https://hudgov-answers.force.com/housingcounseling/s/?language=en_US)
- Can search by geography, type of services needed or counseling method



**HOUSING COUNSELING SERVICES**

The nationwide network of HUD participating housing counseling agencies have been helping consumers across America for more than 50 years by providing the answers they need to make informed housing decisions.  
Use the search below to find a HUD participating housing counseling agency near you.

**Related Resources:** To get help in another language or seek disaster relief assistance counseling, call HUD at 800-569-4287 or 202-708-1455 (TTY).

Search by zip code or state to find a HUD participating housing counseling agency near you:

Zip code  Distance  OR State

Select the type of service you are seeking (optional):

Use the criteria below to narrow your search results (optional):

Agency Name  Counseling Method  Preferred Language

**Search**



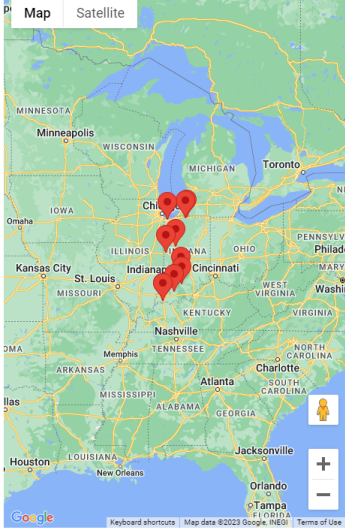
# INDIANA HOUSING COUNSELING AGENCIES

- Includes:
  - Contact
  - Counseling Method
  - Counseling Services
  - Languages
- Currently, HUD lists 24 Housing Counseling Agencies
- Please note that certain areas of the state may not have a certified housing counseling agency

Home HUD Office of Housing Counseling

### Your Search Results

View agencies matching your search in the map below and see detailed agency information beneath the map. [Print](#)



**Housing Counseling Locations Search Results (10)**

- CITY OF BLOOMINGTON - HOUSING AND NEIGHBORHOOD DEVELOPMENT (HAND)  
401 N Morton St, Bloomington, Indiana
- CITY OF GARY IN DEPARTMENT OF COMMUNITY DEVELOPMENT  
401 Broadway Ste 300, Gary, Indiana
- CITY OF SOUTH BEND  
227 W Jefferson Blvd, South Bend, Indiana
- COMMUNITY ACTION PROGRAM INC. OF WESTERN INDIANA (CAP-WI)  
418 Washington St, Covington, Indiana
- COMMUNITY ACTION PROGRAM OF EVANSVILLE & VANDERBURGH COUNTY, INC  
401 SE 8th St Ste 1, Evansville, Indiana
- DUBOIS PIKE WARRICK ECONOMIC OPPORTUNITY COMMITTEE, INC. D/B/A TRI-CAP  
607 3rd Ave, Jasper, Indiana
- GREENPATH FINANCIAL WELLNESS  
245 W Edison Rd, Mishawaka, Indiana
- HOMESTEAD CS  
671 N 36th St, Lafayette, Indiana
- HOOSIER UPLANDS ECONOMIC DEVELOPMENT CORPORATION  
500 W Main St, Mitchell, Indiana
- HOPE OF EVANSVILLE, INC  
612 SE 4th St, Evansville, Indiana

# NATIONAL HOUSING COUNSELING AGENCIES

Agency	Telephone	Website
BALANCE	888-456-2227	<a href="https://www.balancepro.org/">https://www.balancepro.org/</a>
Consumer Credit Counseling Service of MD and DE	800-642-2227	<a href="http://www.cccsmd.org">http://www.cccsmd.org</a>
Garden State Consumer Credit Counseling, Inc. D/B/A Navicore Solutions	800-992-4557	<a href="http://www.navicoresolutions.org">http://www.navicoresolutions.org</a>
GreenPath, Inc.	888-860-4167	<a href="http://www.greenpath.org">http://www.greenpath.org</a>
HomeFree-USA	855-493-4002	<a href="https://HomeFreeUSA.org">https://HomeFreeUSA.org</a>
Housing Options Provided for the Elderly (HOPE)	314-776-0155	<a href="https://hopeforseniorsstl.org/">https://hopeforseniorsstl.org/</a>
Mon Valley Initiative	412-464-4000	<a href="http://www.monvalleyinitiative.com">http://www.monvalleyinitiative.com</a>
Money Management International, Inc.	866-232-9080	<a href="http://www.moneymanagement.org">http://www.moneymanagement.org</a>
National Association of Real Estate Brokers Investment Division, Inc.	510-268-9792	<a href="https://www.nidhousing.com/">https://www.nidhousing.com/</a>
National Foundation on Credit Counseling	800-388-2227	<a href="http://www.nfcc.org">http://www.nfcc.org</a>
Nueva Esperanza Inc	215-324-0746	<a href="http://www.esperanza.us">http://www.esperanza.us</a>
Rural Community Assistance Corporation	916-447-2854	<a href="http://www.rcac.org">http://www.rcac.org</a>
Telamon Corporation	919-851-7611	<a href="http://www.telamon.org">http://www.telamon.org</a>

- List of HUD-approved agencies can be found here:
- [https://www.hud.gov/program\\_offices/housing/nationally\\_hud\\_approved\\_housing\\_counseling\\_agenciesdirectory](https://www.hud.gov/program_offices/housing/nationally_hud_approved_housing_counseling_agenciesdirectory)

# Housing Counseling Approval

- Identification of the Housing Counseling Agency is recommended with application.
- Use of additional housing counseling (i.e., through Habitat affiliate) not prohibited but **must also** use certified Housing Counseling Agency. Failure to meet this requirement will prompt full repayment of HOME award to IHCDA.
- Can include cost of housing counseling as soft costs per HOME regulations if unit is sold. Donated counseling can count as HOME match.
  - NOTE: cannot be a part of the Recapture Lien.

# What is housing counseling?

- Must be independent, expert advice customized to the need of the homebuyer to address the homebuyer's housing barriers and to help achieve their housing goals. It must at a minimum include:
  - Intake
  - Financial and housing affordability analysis
  - An Action Plan
  - Reasonable effort to have follow up communication when possible
- The counseling **must be individualized** to the specific homebuyer. The counseling must address all topics relevant to the homebuyer, including:
  - The decision to purchase a home;
  - The selection and purchase of a home;
  - Issues arising and affecting the period of ownership of a home (including financial, refinancing, default and foreclosure);
  - The sale of other disposition of a home.

# What is housing counseling?

- The counselor must communicate on the importance of obtaining an independent home inspections.
- The Developer must ensure that each homebuyer signs a receipt acknowledging they were given the “For your protection: get a Home Inspection” and “Ten important questions to ask your Home Inspection”. Most may be found on the [HUD Exchange](#).
- IHCD requires pre-purchase counseling
  - Minimum of 8 hours of counseling
  - Certificate of pre-purchase counseling is valid for one-year
  - Points for post-purchase counseling

# What is housing counseling?

- The delivery method may be flexible (in-person, phone, internet, or combination) but again, must be individualized.
- The developer may not charge servicing, origination, processing, inspection or other fees for the costs of providing counseling.
- Three weeks prior to close out, IHCDCA must receive:
  - Certificate of completion of the housing counseling
  - Documentation that the housing counseling agency is a HUD-approved housing counseling agency
  - Other documentation as requested by IHCDCA

# Setting the Purchase Price

# Appraisals

- Developers will be required to provide either an “after rehab” or “construction value” appraisal from a licensed appraiser, either at time of application or three weeks prior to closing.
- If submitting at time of application, developer can use appraisal as final sales price.
- If the developer opts for CMA with application, then appraisal must be submitted with closeout.
- The unit should sell at appraised value – sales price should reflect market.
  - Discounted sales price hurt the market and may result in windfall on resale.



# Limits on Sales Price

- HUD does have maximum limits on sales price – if the home comes in above the HUD limit, HOME cannot be used to subsize and must be returned to IHCD, even if other funds cover the excess.
- Limits are based on construction type. Both are calculated by HUD based on the 95% of the median purchase price, based on FHA single-family mortgage data.
- HUD releases limits annually; the limits remain in affect until HUD issues new limits.
- Limits may be accessed [HERE](#) from HUD exchange. Current limits effective 9/1/2024.

# Important considerations

- While HUD has maximum limits, the amount may not be affordable to a potential HOME Homebuyer.
- IHCDA will underwrite the buyer and may deny the final sales contract if the purchase price even reduced is more than the homebuyer may safely afford.
- The amount of the sales price must be entered into the Final Proforma Closing Tab.

# Evaluation of Buyer Expenses, Cash Contribution and Cash Savings

# What is homebuyer affordability?

- IHCD uses front-end and back-end ratios to determine affordability.
- Front-end ratio is used at time of application. This includes an analysis of the principal payment, insurance, taxes, insurance (PITI) + utilities to a projected income.
  - Limit is set at 29%. See previous trainings on exceptions.
- Back-end ratio is used at time of closing. The back-end ratio includes both PITI + utilities and existing non-housing consumer debt.
  - IHCD has set this at 41%.
  - Habitat affiliates may go up to 43%.
- The back-end ratio may also limit the loan amount from a primary lender.

# Determining non-housing debt

- IHCD will evaluate the homebuyer's reoccurring monthly expenses. The Developer must submit documentation of:
  - Utility cost projections (may use utility model)
  - Transportation costs
  - Monthly Debt Obligations (credit card, auto loan, student loans, other installment and revolving debt that may appear on a credit report such as alimony, child support etc.)
  - Dependent care expenses (child/elder care) which the homebuyer must have to allow the head of household to work more than 15% of gross income
  - Court order child support or alimony payments more than 20% gross income
  - Out of pocket health insurance premiums more than 10% gross income
- Certain debts which may be repaid in full within several years of closing may not have to be considered for the back-end ratio.

# Cash Contributions & Savings

- Buyers are required to contribute a minimum of \$250 toward the purchase of the unit. This cannot be waived.
- There may be cases in which the homebuyer has significant assets to purchase the home. This may include proceeds gained from the sale of a previous home. If the buyer has liquid assets that exceed \$25,000, the buyer must invest at least 5% of those funds in the purchase.
- Liquid assets are those readily convertible to cash including cash, savings accounts, checking accounts and other bank accounts.
- IHEDA will review Part 5 income documents to assess assets. IHEDA may require written explanations from the homebuyer of any unexplained large expenditures or large deposits.

# Cash Reserves

- The homebuyer must have adequate cash reserves to pay for unanticipated emergencies.
- IHEDA requires 2-4 months of cash reserves. The reserves would then equate last least two times the total PITI + utilities needed per month.
- These may be from savings, checking, money market or other non-retirement accounts.
  - If Part 5 documentation does not provide information on the reserves, IHEDA will require additional documentation.

# Waivers

- IHCD may consider waivers on the following:
  - Front End Ratio
  - Back-End Ratio
  - Reoccurring monthly expense
  - Cash Reserves



# Uniform Assistance (don't do this)

- The developer may not provide a uniform amount of assistance to each homebuyer irrespective of income, assets or other circumstances.
- Each household must be independently evaluated.
- IHCDA must finalize an approval of a homebuyer purchasing a home prior to closing.

# Lending & Mortgage Standards

# Reviewing the Mortgage

- IHCD is required to review each primary mortgage to ensure the loan is sustainable. Homebuyers must be protected from risky mortgage features that may threaten the long-term sustainability of the mortgage.
- The Developer must provide, at a minimum, the closing disclosure to IHCD at least 3 weeks prior to closing.
- If there is additional buyer assistance, documentation of that assistance must also be included as part of the pre-closing package.
- If the Developer can supply a draft of the mortgage prior to closing, that would also be preferable. The mortgage may be submitted after closing – however, if it contains any language that conflicts with the HUD regulations then the funds must be repaid to IHCD.

# Qualified Mortgages

- The Primary mortgage must be a “Qualified Mortgage” (QM) under the requirements of the Consumer Protection Financial Bureau (CFPB).
- QMs limit total points and lender fees to reasonable levels. They also strictly limit pre-payment penalties and contain other features intended to protect consumers.
- With QMs, certain risky loan features are not permitted, such as:
  - An “interest-only” period, when you pay only the interest without paying down the principal, which is the amount of money you borrowed.
  - “Negative amortization,” which can allow your loan principal to increase over time, even though you’re making payments.
  - “Balloon payments,” which are larger-than-usual payments at the end of a loan term. The loan term is the length of time over which your loan should be paid back. Note that balloon payments are allowed under certain conditions for loans made by small lenders.
  - Loan terms that are longer than 30 years.

# Mortgage Exemptions

- Mortgages provided by the following entities are exempt from the QM requirement:
  - Habitat Affiliates
  - Community Development Financial Institutions
  - USDA Section 502 Loans

# Lending Standards

- Cannot exceed a 30-year term (can be as low as 20-year term).
  - Exception: USDA loans
- Must require periodic payments (Balloon payments not allowed).
- Cannot have a first mortgage interest rate more than 1.5% above the average prime offer rate, reported by the [Federal Financial Institutions Examinations Council](#).
- Must be a fixed rate – adjustable-rate mortgages are not allowed under this policy.

# Lending Standards

- The purchaser must be qualified by the lender to spend at least 20% of their monthly gross income on housing.
  - Buyer's who qualify at payments levels below 20% of income usually have higher consumer debt which increases both subsidy costs, and the likelihood for foreclosure later.
- Mortgage cannot contain any right of first refusal – only PJs are allowed to hold any right of first refusal during POA. When sold, it must be sold in fee simple.
- Lenders are not permitted to charge fees for HOME funding.
- IHCDA has a recommended Loan-to-Value ceiling of 95% and required floor of 80%.
  - Be mindful of lender's LTV standards.

# Common Lender Questions

- HOME may be used with a variety of mortgage types – conventional, FHA, VA, USDA.
- IHCDA DPA (First Home, Next Home) may also be used in conjunction.
  - HOME would then fall to 3<sup>rd</sup> position
- Closing Statement will show Buyer Subsidy as a debit to the Seller, and a Credit to the Buyer.
- Refinancing is allowed (more on this in Session 7)
- IHCDA Buyer Subsidy is forgiven on pro-rated basis with 100% forgiven at end of POA.



# Buyer Underwriting

# Buyer Analysis

- IHCD will underwrite each buyer to determine that the mortgage, and lending terms are affordable and not risk to the homebuyer. IHCD will review the first and if applicable, second mortgage.
- The Developer must include a contingency within the sales contract with their prospective buyer that IHCD must approve the buyer and the level of buyer subsidy prior to closing.
- Amounts listed in the Buyer Analysis must match terms and financial figures as identified in both the final Closing Disclosure and Mortgage.
- If change occur and the final proforma is not submitted and approved by IHCD, a new lien may need to be issued.

# Cash needed to buy unit

- Sales price set by appraisal.
- Final closing costs or pre-paids needed. Closing costs may include:
  - Lender fees (origination)
  - Lender costs (appraisal, title)
  - Recording fees, transfer taxes, closing fees
  - Initial escrow deposits
  - These may be HOME eligible and should be included in TDC (closing prorations are not HOME eligible but can be included in TDC)
- Pro-Forma will then calculate total cash needed.

## Buyer Analysis - Closing

Sales Price	175,000.00
Closing Costs & Prepaids	1,200.00
Other Adjustments/Charges (e.g. items paid by seller in advance)	0.00
Total Cash Needed	176,200.00

# Buyer's cash and mortgage

- Buyer's Cash investment (minimum \$250 required).
- Buyer investment paid outside of closing items: If the buyer had any items which lowered the mortgage (i.e. sweat equity).
- Other adjustments/credits: prorations.
- Final Mortgage Amount: this will be less than appraised value – we will next determine the appropriate amount of HOME buyer subsidy.

Buyer's Cash Investment (deposit + cash at closing)	1,000.00	
Buyer investment for "paid outside closing" items		
Other Adjustments/Credits (e.g. items unpaid by seller)	0.00	
Buyer's Mortgage	155,000.00	

# Buyer Assistance

- Total Buyer Assistance needed is the gap between the total cash needed and the buyer's cash investment + the mortgage.
- Other assistance would be other sources of DPA/Closing Cost assistance not coming from HOME.
- The Proforma will then calculate the total amount of HOME assistance.
  - Up to \$60k if under 50% AMI
  - Up to \$50k if over 50% AMI
- Cannot over more subsidy than needed

Total Buyer Assistance Needed	20,200.00
Other Assistance	
<b>HOME Assistance Needed</b>	<b>20,200.00</b>

# Mortgage Terms

- Interest rate is the annual interest rate for the first mortgage.
- Mortgage Insurance rate (yellow cell) and the annual payment (orange) should be included.
- Mortgage term in number of years.
- The proforma will then calculate the principal and interest payments and PMI/MIP.
- Amounts must match Closing Disclosure.

Annual Interest Rate	7.000%
Mortgage Insurance (Orange = Act. Pmt, Yellow = Rate)	
Mortgage Term - Years	30
Principal & Interest Payment	1,031.22
Mortgage Insurance Payment	0.00

# Other housing costs

- Proforma request annual costs of taxes, insurance and associate fees.
- Projected taxes and insurance must be used. Taxes must be estimated at a minimum of \$50/month. If developers have data supporting a higher tax need, please supply that documentation.
- Utilities to be added to proforma.
- Proforma will calculate the total escrow and total payment needed (PITI+ utilities).

Taxes (Annual)	1,250.00
Insurance (Annual)	1,000.00
Association Fees (Annual)	
Total Escrow (Monthly)	187.50
Total Pmt (PI + MI + TI Escrows)	1,218.72
Utilities (monthly)	350.00
Total Escrow w/ Utilities (Monthly)	537.50

# Determining buyer affordability

- Use annual income from Part 5 analysis.
- Include existing non-housing consumer debt.
- Proforma will then calculate the front-end ratio (housing ratio) and the back-end ratio (total debt ratio). This helps us determine if the mortgage is affordable.
- Proforma will calculate the LTV and include information on the buyer cash investment.

Annual Income (Underwritten)	63,000.00	
Existing Nonhousing Consumer Debt - Monthly	1,000.00	
Housing Ratio	23.2%	
Total Debt Ratio	42.3%	
First Mortgage LTV	88.6%	0.57%
Buyer Cash Investment	1,000.00	



# Evaluating Liquid Assets

- Add in starting liquid assets
- Pro-forma will pull the cash investment toward purchase.
- Proforma then calculates the assets after closing and determines the remaining assets.
- Include existing non-housing consumer debt.

Buyers' Starting Liquid Assets	4,000.00
Buyer Cash Investment toward purchase	1,000.00
Buyer's Assets AFTER closing	3,000.00
Remaining Assets/Monthly Pmt	2.5

# Implications of Underwriting Policy

- Not all potential homebuyers that may be income eligible are going to qualify
  - May need more buyer subsidy than allowable under policy
  - May not have sufficient assets
  - May not qualify for a responsible mortgage
- Be mindful of lenders who may want to “overleverage” the buyer or offer a subprime loan

# Upcoming Training –

**Monday, November 18, 2024**

**9:30am**

**Income!**

Hosted by IHCDA's Compliance Team

# ANY QUESTIONS?

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